



## **Presentation by Harris L. Kempner, Jr. & Jeffrey G. Sjostrom**

Galveston Economic Development Partnership

*Readiness for Recovery: Galveston Recovery Model*

January 18, 2007

**Kempner** Jeff and I together could not fit at the same podium. So we'll do it one at a time. I'm told that what we're doing is quite unusual. You just heard it from Jim. So a little bit about how we got there.

It really sort of began in the fall of 2005(sic) when we were all inundated by pictures and stories of the ongoing problems of Katrina; that Katrina caused and Rita caused in Louisiana and in Mississippi. And we were quivering here and remembering 1900 because of our near miss from Rita.

And then there was another much more elemental force in the; alive in the land. And that was the Mayor, who was on everybody to consider what we needed to consider in terms of recovery. She mentioned the family history in that. And it was; I was very alive to the concept and she hooked me in rather quickly. She, however, is a fine one to be talking about other peoples' bugs. Because she is the most effective one I know when she starts bugging you about something. She simply never stops until it's done.

We sat down, a group of us, in October of 2005 to begin discussing what would be needed for hurricane recovery in Galveston. From the very outset this was a group representing both the City as an institution and many of the other institutions in the City, public institutions but also private enterprise. A lot of business interests. This process is ongoing. We're still learning. And sadly, the ongoing difficulties of our fellow coastal dwellers are the most educational. However, we can share some of our approaches and conclusions with you.

You'll see right at the outset that the time spent is a heck of a lot longer than 72 hours, we're talking about. In fact, for effective recovery you need to do a lot of things, we think, before a hurricane or another disaster hits. And then a number of things after.

First we did develop a scenario, as Jim referred to. We felt that we needed; we call it a scenario of destruction. We felt we needed to in order to frame the kind of steps we'd need and to look out about five years. Our selected scenario was a 50 percent destruction of all property in the City and all income sources for the City. Which means to us that we're right at the edge of whether recovery is possible but we're there. We didn't spend any time fussing about the scenario; we just took a tough one. We felt that would be a waste of our time. Once this was done we started to conjure up the needs. And when you do this, they fall into

some specific categories. But as we considered the categories, there was one consistent mantra.

And this mantra was, what can we do ahead of time to make the recovery process more possible. Ahead of time? You'll hear it over and over in what I talk about. And we; by the way, we defined a successful recovery as getting people back to live and back to work. Another way to put this is, the recovery of the economic drivers of a community is the recovery of the community.

And my basis, and with that kind of background thinking, some of the **most pressing needs were; became pretty clear. One is housing.** Getting people back to live. In the short term we think that we **need a cruise ship or two for Galveston** and, and we need to do; to work on it; we had needed to select that and try to explain that to our clients ahead of time. The City has indeed negotiated with at least one of our cruise ship customers for at least one ship. It's not a firm negotiation, you understand, but they understand what we're going to need. We're on their list. This is all a part of this mantra of doing what you can ahead of time before an event strikes. Now the City has to determine - this is probably a Council matter - before next season who will have slots on those ships? Our model of our committee is that in addition to City workers, who obviously have slots on that ship, some places must be held for people who might not have their houses still here but who work for economic; major economic players. So that you know and we know that the essentials, some essentials defined by whomever, are going to actually be able to have a place to live after a storm to try to get their businesses or their institutions up and going.

The New Orleans model, as I understood it, was only city employees. And I think that model has to be expanded for us. Longer term, we need some work on permitting ordinances to make temporary and permanent housing easier to build. The Council needs to talk about whether, if we're **going to use trailers**, a large piece of property is available and can be designated as a place to put those trailers.

One of the lessons learned from New Orleans in the earliest days was that they tried several times to put trailers for a lot of housing on golf courses but the private memberships and even the public memberships certainly didn't want the trailers on. Those kind of problems need to be faced ahead of time if that's what we're going to do. And the Council needs to grapple with it and not put it off, Council.

We also think that modular housing and the possibilities of modular housing and where that might be needs to be scouted and analyzed ahead of time. And again, a question of permitting and what the possibilities are. You don't suspend the laws of the city for very long during an emergency.

But we're now talking about a disaster which could be five years, not just an emergency circumstances. And as Jim pointed out, you have to think that way. FEMA has been contacted ahead of time to determine what paperwork will be needed to facilitate the flow.

Another area of major need is finance. And we kept in mind one, one thing. That after a disaster both in a city and private enterprise has; have to deal with the cost

of your present obligations as well as your future obligations. A city's bonded indebtedness, for example, continues to run and is out there and has to be; it has to be dealt with in some way or fashion or form along with the future obligations. They're going to contract to rebuild their infrastructure. This has paralyzed some of the cities that we've been watching after Katrina. Until some very, very interesting sort of creative financing took place. We should be at least discussing these kind of problems ahead of time. And indeed, we have been. This, this is; I'm sort of in this case preaching to the converted. Because this; a lot of this has been going on.

As Steve LeBlanc mentioned, reserves are crucial. Cities actually need; as he put it, very nicely, you have to spend money in order to buy time really. To get all the activities going. Even if you try to; even if you try to do things ahead of time you still are going to have to have some kind of reserves.

**And our picked target is three months of operating reserves for all the different department in the City.** Now these reserves can be called emergency reserves and untouchable. That's up to about two million dollars, I think; one-nine at the City now. But six; but three months of city operating budget for the general fund, which is; that refers to, is about 12 million dollars. So - I'm sorry, it's nine million dollars. Because it's a 36 million dollar budget and that's a quarter of a year. So other reserves that the City has will have to be dedicated to it. And now we're talking about **budgeting, management.** And how high a priority is this. Because that little item really does mean that if you follow it, awful lot of programs and things that a lot of citizens want may not happen. Because of the need to keep the reserves.

It's relatively easier in the, in the enterprise funds with the water, sewer and so forth to do. But this thing in the general fund is really a serious matter of city policy. We determined that under certain circumstances it might be possible to use CDBG funds that are devoted to one things, to other things for; and that's, that's sort of an intelligent pre-planning. I think that some of the language in the CDBG application may have to be changed or modified to do that. But at least we know that. That's two and a half million dollars a year, which come in handy in the case of the kind of disaster that I'm talking about. We're working on getting bridge loans for the City lined up ahead of time to the extent possible. Part of the problem is you don't know how much collateral you have.

But the other problem is Texas law. Which presently has to be modified if cities are going to be able to do this simply. Susie Green's here, our City attorney, and can answer any questions about that that anybody has. Please don't ask me. I just know it has to be done. And again, we pre-plan. We started asking questions about it; now we know this. In fact, we're trying - well, I'll get to that in a minute.

We are also beginning to **discuss tax incentives which might be needed to attract back businesses and attract new ones.** Another aspect of all this that cuts across some of these functional lines like housing and finance is cooperation. With the State; with the federals; with private entities. Most particularly this means FEMA. We have invited them into our discussions and they have come. We have talked to them of what our needs might be and they have said, we can do

this. We can't do this and we can't do that, but we can tell you what kind of forms you may need. We can tell you we now understand your circumstances and what you'll be asking for. You can pre-apply in some cases and leave it; basically leave it blank.

In other words, that bottleneck that you saw after, after Katrina particularly can be worked on ahead of time to free up the flow faster. So if the city has already got these reserves in, on hand and is freeing up the flow, then we should be able to execute whatever is needed via FEMA in our plan of recovery more easily than has been evident in a lot of other places since Katrina and Rita. We're **working with the State to create a lending pool for cities ahead of time**, as was created in Louisiana only after Katrina.

As Steve mentioned, discussions have been held with Wal-Mart, Target and other major businesses here about doing their logistic magic in the early days to help the city recover. And we've had negotiations with fuel suppliers which, as you'll recall, was a really serious problem in New Orleans right afterwards. I mean, they, they didn't have gasoline or diesel for anything, really. For quite a while. And finally, all this has led us at the moment to be working on new laws. We will need some charter changes here which will take place in May. And that election, is it this May? Next May? November, sorry. She's not quite ready to write them yet, I guess.

The; we're; I mentioned the State legislations we're trying to get to do bridge loans. And we need; the bridge; and this will require indebtedness without a vote of the people under certain circumstances, which is against the Texas Constitution. And which we'd have to change if we're going to get bridge loans. Some of this will be done this year. I've been talking pretty much about the City and what it needs. Jeff is here to talk about how far we've got in this kind of planning as far as businesses are concerned and what we've done.

**Sjostrom** Careful, Judge. Stay still; I'm moving. You know, I'm a bit offended at the trend that's developed as it relates to my petite nature and the comments that have been made by our prior speakers. I appreciate the opportunity to be here; I appreciate everything that Jim has done and what NCORP has done in terms of bringing this issue forward and giving us an opportunity to talk.

What I'd like to do as it relates to the business recovery aspect of what the economic development partnership has been involved with is relate back first to a couple of key points in terms of where this started and how we embarked on looking at business recovery. And then specifically going to a few areas that we've identified, both in terms of additional resources for the business community to assist them and areas that, frankly, we haven't found the solutions to but things that we continue to work on. In the hope of **creating additional tools and resources for the business community**.

Back when Rita came on shore and was in play, I was afforded the opportunity to ride out the storm, if you will, with the City of Galveston. And Gary Coffman, who's in the back who is the chair of our business recovery committee, did that with me. And in doing that, frankly, the first reason why I wanted to do it was because I didn't know what the role of an economic developer would be. In

hurricane preparedness, hurricane response, or hurricane recovery. As we went through the process it became clear. The experts were doing what they needed to do. The elected officials were doing what they needed to do. And we just needed to stay out of the way. As the storm came and went, the image that, that has stayed with me throughout the last year and a half is the Saturday morning after the storm came and, and went by. And waking up that, that morning and looking at the leaders of Galveston as they contemplated from a city perspective, what do we do next.

It became very clear that the **City of Galveston had three primary functions in terms of what their responsibilities were and what their priorities were. Public safety, infrastructure and communications, both internally and externally as it related to the health and, and welfare of Galveston.**

What became clear at that point was that there was not the opportunity for the business community; if our business community is waiting or is going to wait for the City of Galveston to solve the problems that they've encountered as the result of a catastrophic event, they are going to be waiting a long time. The City does not have the resources or the capabilities to solve all the issues.

And I think taking that lesson is what we've attempted to do in terms of going out and communicating with our business partners within our community that there is an opportunity to pre-plan. And it's incumbent on our **business owners to be prepared before the event in order to mitigate both the financial hardships that they're going to encounter after a storm** and the period of down time that they basically have to handle between when the storm hits and when the resources become available to expedite their reopening of their individual establishments.

After the storm season, as Shrub said, Mayor Thomas came to the Economic Development Partnership and said, we need to do something. And the genesis of the hurricane recovery taskforce came into being.

Shrub chaired the City financial issues committee and has done an excellent job. And appreciation to Shrub. All of the management team of the City and a number of folks that have put a lot of time into looking at these issues and coming up with ideas. On the business recovery side we have Dr. Barbara Thompson, who's here from UTMB. Gary Coffman did a stellar job in leading this committee.

But we engaged business owners in looking at the issues that needed to be addressed in terms of what are we going to do after the fact? In order to help get our business community back up as soon as possible. Part of this process, first, was a learning experience.

And what we literally did is we took the time and we started to go traveling to see some of our allies up and down the coast. We went to Beaumont and Port Arthur. We went to New Orleans. We went throughout Louisiana. We went to Gulfport. We talked with folks. We did a number of things.

Greg Harrington, who's here with the Chamber of Commerce, went with me to New Orleans and participated essentially; I guess that was probably February and March. Six months after the storm. In a recovery conference that was being held

in New Orleans to talk about the status of where the business communities were and what the updates were with regards to how these communities were recovering after the storm.

In the process of getting educated the numbers is what came out and really hit us between the eyes. Six months after the storm we were still hearing numbers that 50 percent of the business community was still inoperable. Fifty percent of all small businesses were wiped out. As you started to look at businesses that were reopening, we heard statistics that there were as many as 90 percent businesses still closed in certain communities, to a tops of maybe 50 or 60 percent businesses open as best cases in these communities that were impacted.

As we talked about resources and started to think about what's going to be there to support our business community, we started looking at some of the federal statistics. And frankly, it scared the hell out of us. We started looking at the primary agencies that we frankly anticipated ahead of time that we would be going to as our go-to agencies to help us get dollars, available capital, back into the hands of our business owners. And SBA was throwing numbers around. Over the first six months they had a 50 percent decline rate. On all applications that went into the Small Business Administration for loans. Six months after the storm, and the numbers really haven't changed that much, unfortunately.

But the numbers that we were looking at six months after the storm, SBA had approved over six billion dollars in loan approvals. Six months after, they had only authorized half a billion dollars. Less than ten percent of the dollars that had been approved had actually gotten into the hands of the small business owners that were trying to restart their business lives, their employee lives and get the fabric of the business community for their area back up and running. So as we started this process we started to look at all of these things. And we actually had some unbelievable support from allies up and down the coast. And specifically with the chambers and the ED groups over in Beaumont and Port Arthur. Folks were willing. Frankly, I think some of it; Sharon Strain talked about being tired.

**There's a psychological strain that we all have to account for after an event of these magnitudes.** But I think in many cases these folks just wanted the opportunity to vent what they've been going through and talk about it. So we were beneficiaries of that information and what they were willing to give to us. So taking what we've learned, what we have embarked on is probably our primary mission as it relates to the business community is to educate them that pre-planning will mitigate financial hardships and down time. Period.

And there are ways to improve your efforts ahead of time in order to be better prepared in the event that something does happen. Our, our biggest activity; and we worked and actually partnered with the Charlotte County Economic Development Corporation out of Florida. They had put together a wonderful document and Florida in many ways is leaders; our leaders in hurricane impacts and hurricane recovery issues. But Charlotte County very freely gave us permission to use a recover guide that they had put together as a template in creating a hurricane business recovery guide for Galveston that we were able to mold and adapt to the issues that are important; that we thought were important to the Galveston business community. And we've; most of you in the audience have

seen this. This is available on our website. But this is essentially kind of a hurricane prep 101. And what we've encouraged our business owners to do is to pull this document out and fill it out.

And by doing that and going through the actual thought process of thinking about 300 different contingencies that the business owners in New Orleans didn't think about, we sat; I had the opportunity to sit in a room with about 12 folks of a insurance company that had a local office here in Galveston. And I sat and talked to these folks. And one after another, 50 percent of them lost everything they own. Everything gone. And one after another, what they said was, we left planning for two to three days to be gone. We had no idea that we could be gone two or three months.

And in taking those types of stories, we've adapted that into things that, frankly, I think a lot of us have taken for granted in the past. And are things that we now know that if we implement ahead of time will help us unbelievably, after the fact, in recreating both our business and our lives as employers, employees and tax contributors to Galveston, to your own local economy.

We're doing a number of other things and for time purposes, I'm not going to go through details. But everything from websites for communication, to looking at issues; Wendy O'Donohue's here with the planning department. We've talked with her about **permitting processes and how do we work to expedite businesses' ability to rebuild**. We've talked about with the City Manager things about how do we use local businesses. How do we ensure that as we come back and get into operation we don't become victims of federal contracts and things coming and happening that are happening to us instead of us making them happen for us. And so how do we use local businesses? How do we use local contractors? And how do we make sure that they're benefiting as a result of the rebuilding as much as they're benefiting in just re-establishing their company. So I look forward to the question and answer period. But it's a pleasure to be here, and I appreciate your time.

Harris L. Kempner, Jr.  
President  
Kempner Capital Management, Ltd.  
[kempner@kempnercapital.com](mailto:kempner@kempnercapital.com)

Jeffrey G. Sjostrom  
President  
Galveston Economic Development Partnership  
[sjostrom@gedp.org](mailto:sjostrom@gedp.org)